

Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 CIEP-02 SPC-03

STR-08 TRSE-00 LAB-06 SIL-01 OMB-01 DODE-00 PM-07

H-03 L-03 NSC-10 PA-04 PRS-01 SS-20 USIA-15 XMB-07

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 6317

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

RUDTCXMAMEMBASSY LONDON 9163

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION GENEVA

USMISSION OECD PARIS

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, EEC, EFIN, FR

SUBJECT: FLOATING OF FRENCH FRANC AND THE CAP

1. SUMMARY. THE FLOATING OF THE FRENCH FRANC MAKES THE WORKING
OF THE CAP STILL MORE COMPLEX AND THE NOTION OF A COMMON FARM
PRICE POLICY STILL MORE ILLUSORY. IN CONSEQUENCE OF THE
FLOATING OF THE FRENCH FRANC, FRANCE WILL PROBABLY APPLY
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VARIABLE MONETARY COMPENSATORY AMOUNTS IN ITS AGRICULTURAL

TRADE. MOREOVER, FRANCE MAY CHANGE THE CONVERSION RATE BETWEEN THE UNIT OF ACCOUNT AND THE FRENCH FRANC WHICH WOULD FURTHER SPLIT THE UNITY OF THE CAP PRICE SYSTEM. END SUMMARY

2. MONETARY COMPENSATORY AMOUNTS REPRESENT ADDITIONAL BORDER PAYMENTS (LEVIES AND SUBSIDIES) USED TO BRIDGE THE DIFFERENCE BETWEEN THE CONVERSION RATE OF NATIONAL CURRENCIES INTO THE UNIT OF ACCOUNT (IN TERMS OF WHICH THE CAP PRICES ARE FIXED) AND THE ACTUAL EXCHANGE RATES OF THE MEMBER STATES' CURRENCIES (IN TERMS OF WHICH TRADE IS CONDUCTED). SINCE THE MEMBER STATES ABANDONED FIXED PARITIES, MOST OF THEM HAVE APPLIED MONETARY COMPENSATORY AMOUNTS IN AGRICULTURAL TRADE. HOWEVER, THE COUNTRIES ADHERING TO THE "SNAKE", I.E. THE COUNTRIES WHOSE EXCHANGE RATES WERE FIXED VIS-A-VIS EACH OTHER, AND WHOSE CURRENCIES HAVE APPRECIATED RELATIVE TO THE UNIT OF ACCOUNT, HAVE APPLIED FIXED MONETARY COMPENSATORY AMOUNTS, WHILE THE MEMBER STATES WITH FLOATING EXCHANGE RATES HAVE APPLIED VARIABLE MONETARY COMPENSATORY AMOUNTS.

3. IF FRANCE WERE NOW TO APPLY VARIABLE MONETARY COMPENSATORY AMOUNTS IT WOULD IMPOSE EXPORT LEVIES AND IMPORT SUBSIDIES IN ITS FARM TRADE. THE LEVEL OF THESE MONETARY COMPENSATORY AMOUNTS WOULD REFLECT THE AVERAGE WEEKLY DEVIATION OF THE FRENCH FRANC FROM ITS CENTRAL RATE.

4. IN PRINCIPLE, SUCH A STEP WOULD NOT REPRESENT A FUNDAMENTAL MODIFICATION OF THE SYSTEM OF MONETARY COMPENSATORY AMOUNTS. IN PRACTICE, HOWEVER, SUCH MEASURES WOULD NOT ONLY ADD TO THE ADMINISTRATIVE JUNGLE OF THE CAP BUT WOULD ALSO FURTHER COMPLICATE THE QUOTE COMMON UNQUOTE PRICE SYSTEM.

5. HOWEVER, THE SYSTEM OF MONETARY COMPENSATORY AMOUNTS IS THREATENED BY FURTHER COMPLICATIONS. IN THE COURSE OF THE PAST YEAR, THE PARITIES ORIGINALLY FIXED BETWEEN THE NATIONAL CURRENCIES AND THE UNIT OF ACCOUNT HAVE BEEN CHANGED AT VARIOUS TIMES. FOR INSTANCE, THE RATE AT WHICH CAP PRICES IN TERMS OF UNITS OF ACCOUNT WERE ORIGINALLY CONVERTED INTO ITALIAN LIRE WAS 1:625. HOWEVER, FOR CERTAIN CAP PRODUCTS THIS CONVERSION RATE WAS CHANGED ON NOVEMBER 1, 1973 TO 1:650 AND ON JANUARY 1, 1974 TO 1:678. IT IS TO BE FURTHER CHANGED TO LIMITED OFFICIAL USE

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ONE UNIT OF ACCOUNT EQUALS 712 LIRE. IT IS FEARED THAT IF THE FRENCH DO NOT GET SATISFACTION FROM THE COUNCIL DECISIONS REGARDING THE 1974/75 PRICES, THEY MAY SUGGEST THAT IN ONE OR ANOTHER INSTANCE THE CONVERSION RATE BETWEEN THE UNIT OF ACCOUNT AND THE FRENCH FRANC BE CHANGED. THUS, IF THE COUNCIL WERE TO DECIDE THAT THE BEEF ORIENTATION PRICE BE REAISE BY 10 PERCENT AND THE FRENCH CONDIDERED SUCH A PRICE INCREASE AS INSUFFICIENT, THEYMIGHT INSIST THAT THE

CONVERSION RATE ON WHICH FRENCH BEEF PRICES ARE BASED BE
ALTERED SO AS TO OBTAIN A HIGHER PRICE IN FRANCE THAN WOULD
OTHERWISE OBTAIN.

6. ON THE OTHER HAND, IT IS CONCEIVABLE THAT IF DUE TO
FLOATING THE FRENCH FRANC DEPRECIATES ONLY TO A SMALL EXTENT
RELATIVE TO ITS FORMER PARITY, THE FRENCH MAY FOREGO
APPLYING THE VARIABLE MONETARY COMPENSATORY AMOUNTS. THIS
COULD HAPPEN BECAUSE MONETARY COMPENSATORY AMOUNTS ARE
PRIMARILY INTENDED TO PROTECT THE SYSTEM OF INTERRELATED
SUPPORT PRICES IN THE COMMUNITY FROM BEING UNDERMINED BY THE
DEPRECIATION OF A CURRENCY. HOWEVER, IF, AS AT PRESENT, MARKET
PRICES ARE GENERALLY FAR ABOVE THE SUPPORT PRICES,
MONETARY COMPENSATORY AMOUNTS SERVE ONLY TO KEEP PRICES AT
A HIGHER LEVEL THAN WOULD BE THE CASE IF THEY WERE NOT
APPLIED. UNDER SUCH CIRCUMSTANCES THEY ARE NOT NECESSARY TO
SAFEGUARD THE INTRA-COMMUNITY PRICE SUPPORT SYSTEM.

7. THE COMMISSION IS EXPECTED TO PROPOSE WITHIN THE NEXT FEW
DAYS THE MODALITIES OF THE COMPENSATORY AMOUNTS TO BE
APPLIED BY FRANCE. GREENWALD

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